ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author:	Dunn	Analyst:	Roger Lackey	Bill Number:	SB 888
Related Bills:	See Legislative History	Telephone:	845-3627	Introduced Date:	02-23-2001
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Little Saigon Enterprise Zone

SUMMARY

This bill would require the Trade and Commerce Agency (TCA) to designate a specific area in southern California as an enterprise zone.

PURPOSE OF THE BILL

The purpose of the bill, as reflected in legislative intent language is to establish the “Little Saigon Enterprise Zone.”

EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative January 1, 2002.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Existing federal law creates empowerment zones and enterprise communities to provide economic revitalization of distressed urban and rural areas. The Secretary of Housing and Urban Development and the Secretary of Agriculture designated nine empowerment zones and 95 enterprise communities from areas nominated by state and local governments (one enterprise community is in Imperial County and one enterprise community is in Watsonville). In addition, the Secretary designated two supplemental enterprise zones (one in Los Angeles) and four enhanced enterprise communities (one in Oakland).

Under the Government Code, existing State law allows the governing body of a city or county to apply for designation as an enterprise zone. Using specified criteria, TCA designates enterprise zones from the applications received from the governing bodies. TCA has designated all of the 39 enterprise zones authorized under existing law.

Enterprise zones are designated for 15 years, after which time enterprise zones meeting certain criteria may be extended an additional five years.

Board Position:			Department Director	Date
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When an enterprise zone designation expires, TCA is authorized to designate another in its place or redesignate the existing zone to maintain a total of 39 enterprise zones.

TCA may audit enterprise zone programs. The audit would provide a result of superior, pass, or fail. Failing programs may be de-designated. Businesses that have elected or claimed tax incentives prior to the de-designation of a zone may continue to claim those tax incentives as if the zone was not de-designated. The businesses cannot elect or claim the tax incentives beyond the normal life span of the zone. This applies only if the business is otherwise still eligible for those incentives.

Under the Revenue and Taxation Code (R&TC), existing State law allows special tax incentives for taxpayers conducting business activities within an enterprise zone. These incentives include a sales or use tax credit, hiring credit, business expense deduction, special net operating loss treatment, and net interest deduction. In addition, specified employees of businesses operating within an enterprise zone may claim a wage credit.

THIS BILL

This bill would require TCA to designate an area that includes parts of the Cities of Fountain Valley, Garden Grove, Santa Ana, and Westminster, and the unincorporated areas of Orange County adjacent to those cities as an enterprise zone. TCA would make the designation upon application by a joint powers authority consisting of representatives from each city and county described above.

This bill would specify that any tax incentives available to existing enterprise zones under the R&TC would apply to the new enterprise zone designated under this bill.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

LEGISLATIVE HISTORY

SB 130 (Knight, 2001/2002) would allow creation of an additional enterprise zone that meets specified criteria. This bill is in Senate Housing and Community Development Committee. AB 46 (Washington, 2001/2002) would require TCA to rank applicants for an additional enterprise zone within Los Angeles County and designate one from that list. This bill is in Assembly Jobs and Economic Development Committee.

AB 356 (Washington, 1999/2000), which was identical to AB 46 (Washington, 2001/2002), was vetoed by the Governor. The Governor's veto message specified that the number of zones must be limited and the areas chosen on a statewide, competitive basis.

OTHER STATES' INFORMATION

Currently, 29 other states have economic development areas that provide similar tax-related incentives as those provided by California's economic development areas. The number of economic development areas varies from state to state. For example, California currently has 50 economic development areas, while **New York** has 58; **Florida**, 32; **Illinois**, 93; and **Michigan**, 23.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Tax Revenue Estimate

Revenue losses are projected to be as follows:

Estimated Revenue Impact of SB 888 As Introduced February 23, 2001 (Enactment After June 30, 2001) (In $Millions)			
Fiscal Years	2001-02	2002-03	2003-04
Revenue Impact	-Minor	-$1	-$1.5

(Minor) means losses less than $500,000.

Any possible changes in employment, personal income, or gross state product that might result from this provision are not taken into account.

Tax Revenue Discussion

Revenue losses under the Personal Income and the Bank and Corporation tax laws would largely depend on the number of businesses that would purchase qualifying property subject to the sales tax, the amount of wages paid to qualifying employees, and the state tax liabilities of employers claiming these tax benefits.

Revenue losses for existing enterprise zones were approximately $1 million per zone, on average, for tax year 1998. Revenue losses for this new zone would most likely be below the average in the initial year of zone designation. Allowance was made for new businesses that might start up in future years.

ARGUMENTS/POLICY CONCERNS

This bill does not specify the duration of the enterprise zone designation for the new area. Generally, enterprise zones are designated for 15 years.

This bill does not specify that the new area must meet the general enterprise zone designation criteria that currently require that the application propose effective, innovative, and comprehensive regulatory, tax, program, and other incentives in attracting private sector investment to the enterprise zone.

LEGISLATIVE STAFF CONTACT

Roger Lackey	Brian Putler
Franchise Tax Board	Franchise Tax Board
845-3627	845-6333